COMMENT / *By Paul S. Nadler*

Bankers Scorn Stock Shifts, But They Can't Ignore Them

As bankers follow the market prices of their companies' stocks every day, many must feel they are living in a horror movie.

Prices have tumbled so rapidly that some banks have seen their stocks drop by one-third in value in a couple of weeks – wiping out gains slowly built up over several years. And most bankers whose equities have been hit have every reason to ask: "Has our operation been so bad as to justify this debacle?"

To this observer, at least, the answer is a resounding "No."

Trampled by the Herd

Surely, some banks' loan losses and operating performance have justified their sharp declines in share price. But in far too many instances, the declines have simply resulted from the fact that the banks are in territories where other banks are in trouble.

What we have seen, then, is a vindication of the old adage: "When they raid the sporting house, they take the piano player, too."

Why?

What has to be remembered as we analyze today's bank stock market is that trading in most shares is extremely thin, making prices highly volatile. In some instances, buying or selling as little as $25,000 worth of the stock in a multibillion-dollar thrift or bank can move the share price 5% or more.

Market Makers Vulnerable

One can't blame the market makers. They can lose their shirts holding a thinly traded bank stock if demand for it dries up and sellers keep calling them.

'When they raid the sporting house, they take the piano player, too.'

Thus, they protect themselves by lowering the quote.

But other factors also make bank shares highly volatile, especially on the downside:

- Pension fund managers hate to admit they have held a loser. Thus, they dump those stocks before a statement date, no matter the price they get. (Often, they buy back the same stocks at higher prices as soon as the shares return to favor.)
- People take losses for tax purposes – a major factor in December's bank stock disaster.
- Short sellers then see profits in dumping bank shares they don't own – exacerbating the decline.
- Finally, brokerage firms and brokers urge sales once a stock goes "south" – because this gives them transactions to recommend that can generate sales and commissions.

Impact on Performance

What do these factors mean for a bank, its long-run viability, and performance?

Many top bank executives say stock movements mean nothing. In this regard, I remember a CEO who was glad when the local papers stopped quoting his stock's price in the era before NASDAQ; he got fewer complaints from shareholders when they could no longer follow the issue.

But acute bankers worry about declines in share prices for several reasons:

- They penalize shareholders who must sell and employees whose retirement income is based on share price at the time they close out their profit-sharing programs.
- They hurt employee morale and tarnish a bank's image in the minds of many in the community.
- They make some holders of large deposits – above the Federal Deposit Insurance Corp. insurance ceiling – become wary and withdraw funds.
- They make it almost impossible to raise new capital without serious dilution of shareholder equity – making it harder to meet regulatory capital requirements.
- And they make buying the bank more tempting to other banks and to nonbanks interested in tendering for the shares and capturing control.

What Can Be Done?

What can a CEO do about this problem? Most say, "Very little." Yet this can be when years of effort to build a solid base of shareholders truly pay off.

Unfortunately, hardly any banks set the stage for this payoff by explaining, while share prices are rising, that price movements are insignificant to their overall operations.

It is ironic that one of the most important points of public contact – the marketplace for a bank's shares – is virtually out of the banker's control. All he can do is follow his own stock in the paper and on the screen.

But while bankers would like to explain to the public that what happens to share prices really does not reflect the bank's long-range prospects, it is frequently hard to sell this to the public when stock prices fall. □

Mr. Nadler is a contributing editor and professor of finance at Rutgers University's Graduate School of Management.

"SOUND OFF"

South Africa recently announced it would negotiate to free long-time political prisoner Nelson Mandela and lift a 30-year-old ban on the African National Congress in the hope of ending the country's status as an international pariah. Suzanne Christy, of the American Banker's feature's staff, asked:

Q How far must South Africa go in easing repression before the U.S. government should allow banks to resume lending there?

■ Mark Goebel
Director of Communications
Institute of International Bankers

Before the U.S. even considers lifting economic sanctions, South Africa has to incorporate and share power with the black constituency. Then they have to set out a clear plan on how they will make this happen. What we have so far are promises.

We shouldn't even be talking about lifting sanctions yet. Instead, the U.S. government should use further economic leverage as a carrot to encourage South Africa to set forth a concrete plan.

In certain aspects, the situation is similar to the one in Eastern Europe. Both have gotten over the hurdle of deciding that changes need to be made.

But superficial changes are not going to placate the world or get the sanctions lifted.

■ Donna Katzin
Director
South Africa Interfaith Center on Corporate Responsibility

I don't see banks trying to reenter markets they have left. If anything, the situation is more volatile than ever before. We shouldn't even consider investment until a substantial move to nonracial democracy has been made.

There is some real question about the authenticity of the changes. Even if they release Nelson Mandela, that does not mean he can live as a free man, nor can any of the 28 million blacks.

The challenge is not to lift the sanctions, but to increase pressure in a meaningful way so South Africa is forced to move toward peaceful change. It is a delicate situation. If the abolition of apartheid is not forthcoming, there are no guarantees that the road will remain open to peaceful change.

We cannot let the South African regime get away with cosmetic or window-dressing type of changes.

A bill that would increase sanctions is now moving through [a] House Banking subcommittee, and would affect both overseas and U.S. banks and oblige banks to increase their pressures in a time-triggered fashion.

Even though there is no new lending permitted, U.S. banks play a key role in facilitating South African financial transactions. Banks that are creditors to South Africa can convert their short-term debt into 10-year loans, which they have been renegotiating. This postpones the action on apartheid by taking off the immediate pressures on Pretoria. We consider additional time to be the fundamental equivalent of new credit.

■ Salih Booker
Staff consultant
House Foreign Affairs
Subcommittee on Africa

The Anti-Apartheid Act of 1986, which included the prohibition of lending to the South African government, is very clear on the conditions that must be met to terminate the sanctions. Basically, there are five conditions: political prisoners must be released; the state of emergency must be lifted; political parties must be unbanned; the Group Area Act and Population Registration Act must be repealed; and an agreement must be reached to enter into good-faith negotiations without preconditions.

The President can also suspend or modify any or all of the conditions. Congress has 30 days to disapprove his actions.

But I don't see any pressure developing to lift sanctions even now.

■ Roger Wilkins
Professor and chair of history
George Mason University

We shouldn't even be thinking about lifting the economic sanctions. When they were first imposed, critics said they would harm those people we were trying to help. Well, they were obviously wrong. These sanctions have had great impact on forcing the South African government to the table on issues of political freedom.

While South Africa is not there yet, talking is better than shooting. The momentum is there, and we can't turn the clock back. If [President F.W.] de Klerk does not move ahead, there is bound to be even more bloodshed.

There is a new South Africa about to be born. And the American business community should want to end this uncertainty and see South Africa settle down and normalize as soon as possible. If I were an American businessperson, I wouldn't be in any hurry to lift the sanctions. □

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Top 25 Bank Holding Companies

Based on total assets at Dec. 31, 1989 (assets in billions, net income in millions)

Asset Rank 1989	Asset Rank 1988		Total Assets 12/31/89	Total Assets 12/31/88	Pct. Change	Net Income 1989	Net Income 1988	Pct. Change	Net Income Rank 1988
1	1	Citicorp, New York	$230.6[1]	$211.7[2]	+ 8.9	498.0[3]	1,698.0	-70.7	1
2	2	Chase Manhattan Corp., New York	107.4	97.5	+10.2	(665.0)[4]	1,059.0	NM	2
3	3	BankAmerica Corp., San Francisco	98.8	94.6	+ 4.3	820.0[5]	547.0[5]	+49.9	8
4	4	J.P. Morgan & Co., Inc., New York	89.0	83.9	+ 6.1	(1,275.0)[6]	1,001.8	NM	3
5	5	Security Pacific Corp., Los Angeles	83.9	77.9	+ 7.8	740.6	638.9	+15.9	7
6	6	Chemical Banking Corp., New York	71.5	67.3	+ 6.2	(482.2)[5 7]	753.6[5]	NM	4
7	18	NCNB Corp., Charlotte, N.C. (a)	66.2	29.8	+121.8	447.1	252.5	+77.1	19
8	7	Manufacturers Hanover Corp., New York	60.5	66.7	- 9.3	(588.0)[5 8]	766.0[5]	NM	5
9	8	First Interstate Bancorp., Los Angeles	59.1	58.2	+ 1.5	(124.5)[9]	102.4	NM	42
10	9	Bankers Trust New York Corp.	55.7	57.9	- 3.8	(979.9)[10]	647.7	NM	6
11	10	Bank of New York Co., Inc.	48.9	47.4	+ 3.1	50.7[11]	213.0	-76.2	27
12	11	Wells Fargo & Co., San Francisco	48.7	46.6	+ 4.5	601.1	512.5	+17.3	10
13	12	First Chicago Corp.	47.9	44.4	+ 7.8	358.7	513.1	-30.1	9
14	13	PNC Financial Corp., Pittsburgh	45.7	40.8	+12.0	377.4	442.7	-14.8	11
15	14	Bank of Boston Corp.	39.2	36.1	+ 8.6	70.4[12]	322.3	-78.2	14
16	21	Fleet/Norstar Financial Group, Inc., Providence, R.I.	33.4	29.1	+14.8	371.3	335.8	+10.6	13
17	22	First Union Corp., Charlotte, N.C.	32.1	29.0	+10.7	256.2	296.9	-13.7	17
18	16	Mellon Bank Corp., Pittsburgh	31.5	31.2	+ 1.0	181.0	(65.0)	+378.5	...
19	20	SunTrust Banks Inc., Atlanta	31.0	29.2	+ 6.2	337.3	308.7	+9.3	16
20	19	First Fidelity Bancorp., Newark N.J.	30.7	29.8	+ 3.0	159.5	33.9	+370.5	105
21	17	Continental Bank Corp., Chicago	29.5	30.6	- 3.6	147.0	315.8	-53.5	15
22	25	Barnett Banks Inc., Jacksonville, Fla.	29.0	25.7	+1; .8	256.7	226.4	+13.4	25
23	17	Bank of New England Corp., Boston	29.0‡	32.2	- 9.9	(1,050.0)‡[13]	281.7	NM	18
24	23	Shawmut National Corp., Hartford, Conn.	28.1	28.4	- 1.1	201.7	242.5	-16.8	22
25	24	Marine Midland Banks, Inc., Buffalo, N.Y.	27.1	26.0	+4.2	(1.1)[5 14]	115.4[5]	-88.0	37
		TOTALS FOR THE TOP	1,481.1	1,377.5	+ 7.5	1,071.9	11,902.8	-91.0%	
		PRO FORMA RANK-MERGER PENDING							
12	13	Avantor Financial Corp.[15]	48.8	43.6	+11.9	507.2	449.4	+12.9	11

Data Sources: Banks' yearend earnings releases and statements. **Net income** is income after taxes and minority interest, but before preferred dividends, extraordinary items, and significant transactions. Excluded is income from discontinued operations. Data for 1988 are as reported in 1989 and have not been restated for mergers or changes in accounting practices, unless otherwise noted. **(a)**— Asset gain is attributable to the merger of NCNB Texas National Bank, Dallas, in Aug. 1989. (1)— Adopted securities industry accounting practices for its for its trading account assets in the fourth quarter of 1989. (2)— Restated for accounting practices change that went into effect in the fourth quarter of 1989. (3)— Includes fourth quarter provisions of $1 billion for possible LDC credit losses. (4)— Includes the third quarter special charges of $1.26 billion. (5)— Excludes tax benefits from utilization of loss carryforward. (6)— Includes a third quarter provision for credit losses of $2 billion related to the portfolio of outstandings to restructuring countries. (7)— Includes $810 million in special provisions recorded in the third quarter. (8)— Includes $1.1 billion added to the refinancing country portion of its reserve for possible loan losses last year. (9)— Includes additional fourth quarter loan provisions of $225 million and $100 million at its Texas affiliate and in consolidation, respectively; and the third quarter provision of $350 million at the First Interstate Bank of Arizona. (10)— Includes third quarter provisions for refinancing country credit losses of $1.652 billion. (11)— Includes a special addition in the third quarter of $600 million to the allowance for loan losses. (12)— includes $280 million provision for credit loses in the fourth quarter. (13)— Expects to make an estimated $1.5 billion provision for credit losses in the fourth quarter. (14)— Includes a special addition to the fourth quarter provision for loan losses of $175 million for domestic loans. (15)— On 9/26/89, Citizens and Southern Corp., Atlanta, and Sovran Financial Corp., Norfolk, Va., announced a definitive agreement to merge. Shareholders approved the merger on Feb. 2. The transaction is expected to be completed in the second quarter. ( )— Indicates net loss for the year. (‡)— Estimated. **NM**— not meaningful.

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Big Bank Profits Hurt by Provisions

By L. MICHAEL CACACE

NEW YORK — Net income of the nation's 25 largest bank holding companies plunged 91% last year, as many of these banks took special loan-loss provisions in the third and fourth quarters to offset loans to restructuring countries and troubled domestic real estate loans, according to an *American Banker* survey.

As a group, the top 25 banking companies earned $1.1 billion in 1989, compared with $11.9 billion in 1988. Twelve of the top 25 reported special loan-loss provisions totaling $11.1 billion. Of the 12, eight reported losses for the year.

J.P. Morgan, the nation's fourth-largest banking company, posted the the largest loss, $1.275 billion for 1989. This loss included a $2 billion third-quarter provision for losses on lesser-developed-country debt.

The troubled Bank of New England Corp., Boston, with an estimated loss for 1989 of $1.05 billion, posted the second-largest loss last year. The company expects to make a $1.5 billion loan-loss provision in the fourth quarter.

Security Pacific Corp., Los Angeles, was the top earner last year, with net income of $740.6 million, up 15.9% from the year before, when it ranked seventh.

The nation's top earner in 1988, Citicorp, saw earnings plunge 71% to $498 million last year. The decline was attributable to its $1 billion fourth-quarter writedown of LDC debt.

Citicorp remains the largest U.S. banking company, with assets of $230.6 billion at yearend 1989, up 8.9% from a restated $211.7 billion the year before.

As a group, the top 25 bank companies posted a rise in assets of 7.5% last year, to $1.39 trillion. The group's net income for the first quarter totaled $3 billion, up 7.9% from the comparable period in 1988.

Bogus Land Sales Cited in Hearings On Lincoln S&L

By BILL ATKINSON

WASHINGTON — The third round of court hearings began Friday in the highly charged case between Lincoln Savings and Loan Association and the Office of Thrift Supervision with testimony that Lincoln used numerous real estate transactions to generate earnings through alleged sham sales of land.

Testimony is expected to be heard well into this week as Lincoln, which is based in Irvine, Calif., brings in a platoon of expert witnesses to rebut charges that the S&L used shady accounting methods in 15 major real estate transactions.

The failed thrift, a subsidiary of American Continental Corp., Phoenix, went into conservatorship last April and a month later sued the thrift office and its former chairman, M. Danny Wall, in U.S. District Court in Washington, charging that the takeover damaged Lincoln and reduced its net worth.

On Friday, Roger A. Johnson, a partner in Kenneth Leventhal & Co., which conducted a review of the 15 real estate deals, reiterated previous assertions that Lincoln used the transactions to generate earnings through alleged land flips and sham sales. Mr. Johnson testified before Judge Stanley Sporkin at the U.S. District Court for the District of Columbia. □

Rival Thrift Trade Groups Discuss Merger

Continued from *page* 1

"We should be moving into a time when there's a greater opportunity to merge than before."

Mr. Sullivan of the National Council, in confirming the meeting for merger talks, cautioned that it is not necessarily "an indication of any merger."

Informal Discussions

In addition to Mr. Sullivan, who is president of Mechanics & Farmers Bank, Bridgeport, Conn., the informal meeting this week will include Robert B. O'Brien, chairman and chief executive officer of Carteret Savings Bank, Morristown, N.J., and Harry W. Albright Jr., chairman and chief executive of Dime Savings Bank of New York, Garden City.

The Dime, like several other sizable thrifts, belongs to both groups. Mr. O'Brien, vice chairman of the U.S. League, is past president of the National Savings and Loan League, a predecessor of the National Council.

Mr. Seaton, the U.S. League chairman who is also chairman and chief executive of D&N Savings Bank, Hancock, Mich., said the consolidation idea had come up in "informal discussions" in recent years. Executives who are active in both associations acted as liaison between the leadership groups, he said.

Split on Thrifts' Edge

On legislative issues, the U.S. League has generally supported preservation of a distinct thrift industry, but the National Council has advocated rules that put thrifts on a more equal footing with banks and other financial institutions.

Calling for unity, Mr. Seaton said, "the perception is still there that we were beat up" by last year's thrift-reform legislation.

The industry's shrinkage – with some members seized by regulators or merging out of existence – may put an end to the thrift trade groups' longstanding fragmentation. Before formation of the National Council in 1983, the industry had three associations.

The U.S. League, older and bigger of the two survivors, suffered a 10% drop in membership last year. Another 179 institutions have notified the league that they will not renew their memberships this year, and the total is expected to go higher.

"Membership is declining, and we planned and budgeted for that decline," said James Grohl, senior vice president at the U.S. League. The group also reduced its staff by 50, to 450.

The National Council, which is dominated by northeastern institutions from the former National Association of Mutual Savings Banks, has lost 120 members this year and gained nine. The council, with a current staff of 55, recently laid off 13 workers and decided not to fill eight other vacancies. □

Inflation Fears Put the Fed in a Bind

Continued from *page* 1

flation." Mr. Trainer, a former economist at the Federal Reserve Bank of New York, said the fed funds rate, now targeted by the Fed at 8.25%, will be stuck there for at least another six weeks – unless dramatic signs emerge of a decline in the domestic economy.

Indeed, not all FOMC members are eager to ease. According to the minutes released Friday of its Dec. 18-19 meeting, Fed Governor Wayne Angell and Federal Reserve Bank of St. Louis President Thomas Melzer dissented from the majority and insisted that the Fed not ease its policies.

Analysts noted hopefully that rising rates in the U.S. may have plateaued. Last week's successful quarterly refunding by the Treasury attracted a participation rate by foreign investors of only 23% – the lowest in two years. This signals that although global investors are shopping for rates, U.S. investors were satisfied with Treasury rates. □

Bank Helps Nail Laundering Ring

Continued from *page* 1

N.Y., which touched off a further investigation.

The attempted deposit came to the bank in an Express Mail package with the return address of the laundering ring's alleged central figure, Julio Montes Cardona of Piscataway, N.J. When Mr. Cardona called Key Bank in June 1989, seeking return of the funds, the bank refused to send them back.

Ms. DeQuintero later authorized Key Bank, a subsidiary of Albany-based KeyCorp, to return the money. The bank issued Mr. Cardona a check for the account's $16,331.18 balance, but the IRS seized the $73,000 in checks and money orders.

The arrests last week were the result of a nine-month undercover investigation into a complex scheme involving millions of dollars in illicit drug profits laundered through banks in New Jersey and Florida. The money orders and cashier's checks obtained in the investigation were in amounts less than $10,000, the threshold that requires reporting of cash transactions to the IRS.

Money was allegedly laundered through Miami offices of Florida National Bank, Bank Leumi le-Israel, and Chase Bank International, along with several banks in New Jersey that prosecutors did not name. None of those banks is believed to have conspired with the defendants. □

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No Big Changes Expected at RTC After Kearney

By BARBARA A. REHM

WASHINGTON — Daniel P. Kearney's resignation from the Resolution Trust Corp. Oversight Board last week may have spurred a wave of criticism over how the thrift bailout is being handled, but it is not likely to prompt significant changes.

Congressional hearings questioning the need for an Oversight Board are not likely to materialize, and efforts to streamline the maze of agencies handling the bailout will probably also fail, according to observers on Capitol Hill.

Rep. Bruce F. Vento, D-Minn., and Rep. Doug Barnard Jr., D-Ga., announced on Friday that they would invite Mr. Kearney, the board's former president and chief executive officer, to discuss what caused him to quit.

ANALYSIS: *Follow-up on the news*

But Mr. Kearney has not yet taken advantage of opportunities to retaliate against Treasury Department officials who, he claims, kept him on a tight leash. In fact, Mr. Kearney took off for Mexico over the weekend without granting any interviews to reporters. People who know him say he does not plan to spill his guts at a congressional hearing – unless he is subpoenaed. Congressional staffers say the lawmakers are unlikely to go that far.

"We wanted to get Kearney's perspective," said an aide to Mr. Vento. "If he's not going to testify, I'm not sure what we'll do."

Treasury Stands Pat

As for Treasury, it appears undaunted and as convinced as ever that it has an obligation to keep close tabs on the Overisght Board's operation.

"The Oversight Board was put there to be the oversight to the RTC. That's what we expected it to be in the past, and that's what we expect it to be in future," said Treasury spokeswoman Desiree Tucker-Sorini.

Tensions should be smoothed a bit by the appointment of acting president and chief executive officer William Taylor, the Federal Reserve Board's director of bank supervision. He helped set up the Oversight Board after the bailout law was enacted last August.

"I was getting ready to go home [Friday]," Mr. Taylor said in an interview on Monday. "Instead I came up here and I've been here ever since." (See story on page 2.)

Mr. Taylor is a savvy career

See **NO** *page* **8**

INSIDE NEWS

CONSUMER

MELLON BANK and Pittsburgh National are one-upping each other with packaged accounts aimed at consumers willing to keep a big balance in exchange for various services. *Page 6*

INTERNATIONAL

BANK OF NEW YORK agreed to sever its correspondent ties to South Africa, according to the Interfaith Center on Corporate Responsibility. *Page 10*

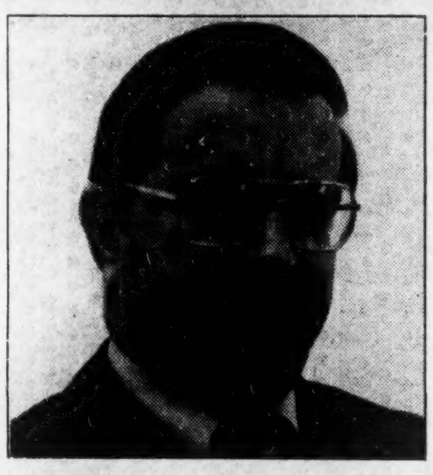
FINANCE

BRANCH SALES, the only capital-raising option for many troubled thrifts, have been hurt by a glut on the market and lack of interest. *Page 16*

REAL ESTATE

YASUDA TRUST & Banking has been able to profit from the misfortunes of U.S. banks, offering top developers terms that can't be beat. *Page 9*

PEOPLE



WILLIAM TAYLOR, director of bank supervision at the Fed, lost no time in taking over the reins at the RTC Oversight Board after Daniel Kearney's abrupt departure. *Page 2*

TECHNOLOGY

SECURITY PACIFIC is going all out to institute a high-speed global communications system linking all branches. *Page 3*

COMMENT

DETERIORATING credit quality always signals a lack of diversification, writes Sanford Rose. *Page 4*

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Salomon Executive Urges End To Industry Barriers

By JAMES R. KRAUS

NEW YORK — In one of the most far-reaching calls to date for a revamping of the U.S. financial system, Salomon Brothers president Thomas W. Strauss on Monday called for the removal of all barriers separating commercial and investment banks. He said the removal would allow U.S. financial institutions to better compete in the world marketplace.

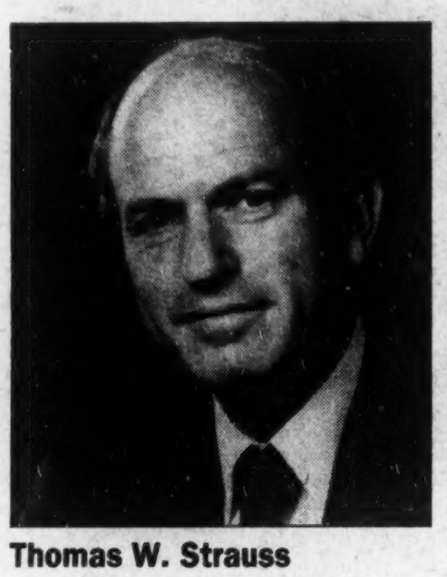
"This means repeal of Glass-Steagall, McFadden, and the Bank Holding Company Act," Mr. Strauss said in a luncheon address to the Institute of International Bankers.

"[These acts] have led to an inability to diversify risks."

The Glass-Steagall Act separates investment banking from commercial banking, the McFadden Act restricts branching across state lines, and the Bank Holding Company Act separates ownership of financial institutions from commercial institutions.

Beyond SIA Proposals

Mr. Strauss' call for a dismantling of all barriers separating banks and securities firms goes beyond proposals advanced by the Securities Industry Association in December. That group



Thomas W. Strauss
President, Salomon Brothers

advocated a repeal of the Glass-Steagall Act for noninsured bank units in return for access to the Fed's discount window by securities firms.

Although the trade association has gradually eased its opposition to giving commercial banks securities powers, it has not gone so far as to call for a outright repeal of the Glass-Steagall Act.

An SIA spokesman declined to comment on Mr. Strauss' address. Salomon Brothers is a member of the association.

Mr. Strauss called for simple functional regulation, whereby

See **SALOMON** *page* **14**

Comptroller Warns Banks To Clean Up Realty Loans

By ROBERT TRIGAUX

WASHINGTON — The Comptroller of the Currency has warned the banks it supervises to tighten up their real estate lending practices. Those that do not comply could face lending restrictions and higher capital requirements.

In an advisory letter sent late last week to nationally chartered banks, Comptroller Robert L. Clarke called for immediate attention to "fundamental deficiencies" and "negative trends in national bank lending." The Comptroller last issued a formal warning to national banks about real estate problems in December 1988.

Regulators said the letter reflects growing agency concern that some national banks are sacrificing good lending habits in the face of strong competition for real estate deals.

Agreements at Two Banks

In the troubled New England market, where real estate values have plummeted, the Comptrol-

See **BANKS** *page* **8**

1989 Results Show Rebound In Southwest

By STEVE KLINKERMAN

DALLAS — Improved fourth-quarter earnings capped a turnaround year for most big Southwest banks and set the region's banking industry solidly on the road to recovery.

The rejuvenation ended five years in which energy and real estate nosedives crunched the economy and bank earnings, causing most big Texas banks to fail. Though they won't soon be star performers, most Southwest survivors can expect further progress in 1990.

"The worst is over for Southwest banks," said Frank Anderson, a senior analyst with Stephens Inc., a brokerage in Little Rock, Ark.

Cleanups Take Hold

In Texas, two big banks that were products of late-1980s rescues reported solid profits last year and even some loan growth. A third big bank cleaned house in 1989 and is expected to report profits in 1990, but a fourth big bank stumbled badly.

Meanwhile, the two biggest

See **SOUTHWEST** *page* **11**

Maneuver by Arbitragers Sends Chase's Shares to a 52-Week Low

By JOHN EVANS

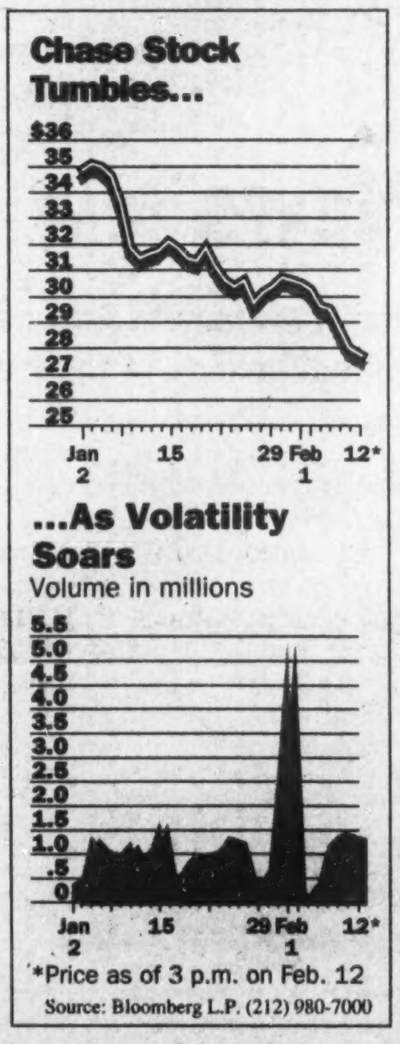
Like the stocks of most big banking companies, Chase Manhattan Corp. shares are tumbling these days. But in addition to bearish investors, Chase must contend with an unlikely foe – Wall Street arbitragers.

The arbitragers, analysts say, are selling Chase's shares short and have become a factor in the stock's sharp decline, to a 52-week low of 27⅞ late Monday afternoon. And to add insult to injury, they are covering their short positions by purchasing stock from Chase at a 5% discount to the market.

The arbitragers can do this because, if they own even a few shares of Chase stock, they are entitled to buy additional shares once a month at the 5% discount under a dividend reinvestment program introduced in the 1989 fourth quarter.

Chase Volume Soars

And arbitragers' selling has sent volume in Chase's shares soaring during the five trading days each month when the shares' average price is tabulated to establish the price at which Chase offers the discounted



stock.

This month's tabulation period began Thursday and ends

See **MANEUVER** *page* **14**

PEOPLE *in the news*

Taylor Plunges In as CEO Of RTC Oversight Board

By BARBARA A. REHM

Bill Taylor was getting ready to go home for the weekend last Friday when his phone rang. Instead of hopping in his Chevette and heading for the Virginia suburbs, the Federal Reserve Board's director of bank supervision grabbed a cab for the Resolution Trust Corp. Oversight Board's offices on Connecticut Avenue.

He was there all weekend.

William Taylor, 50, got the call to take over the thrift-bailout agency after its first president and chief executive, Daniel P. Kearney, abruptly resigned Friday.

Mr. Taylor was named acting president and CEO of the board, and it is not clear how long he will remain in the job. But he said in an interview Monday that "I'm going to run this as if it's not" temporary.

William Taylor

"I told them my basic plan is to put our heads down and go to work," he said, referring to the agency's 40-member staff.

It is clear that Mr. Taylor would like to avoid the controversy that enveloped Mr. Kearney's exit.

Mr. Kearney left after just four months because he felt Treasury officials were preventing him from doing his job with nitpicking interference.

Mr. Taylor is no stranger to the intricacies and politics of the administration's thrift cleanup. Last August, after the bailout law was enacted, he took a leave from the Fed to help set up the Oversight Board. And his name briefly surfaced as a possible successor to M. Danny Wall as director of the Office of Thrift Supervision.

Treasury Secretary Nicholas F. Brady is chairman of the RTC Oversight Board; Fed Chairman Alan Greenspan and Housing and Urban Development Secretary Jack Kemp are members. The board was established to set policy for and monitor the RTC.

The latter agency, which shares the Federal Deposit Insurance Corp.'s board, is selling or liquidating the nation's hundreds of insolvent thrifts.

Mr. Taylor is optimistic but realistic about his relationship with Treasury officials and the complicated cleanup structure's suitability for the job.

"I see this as a very straightforward thing," he said. "Brady is the chairman, and Kemp and Greenspan are members of the board, and I work for them." He called the organization "unique" but insisted: "I don't see any reason why it can't work."

Mr. Taylor's installation is likely to shore up confidence in the fledgling agency. He is viewed on Capitol Hill, in the agencies, and throughout the banking and thrift industries as a no-nonsense regulator who does not try to paper over a bad situation with polite talk.

Not counting a 1970s sabbatical in the private sector, Mr. Taylor has spent his life working for the Fed and is regarded as a man with unquestionable integrity.

RTC Chairman L. William Seidman said of Mr. Taylor yesterday: "We think he'll be doing his usual excellent job. He is a fine public servant, and we look forward to working with him." □

Wells Goes Fishing in Boston Harbor

Top Developers Wooed as Region's Banks Pull Back

By SAM ZUCKERMAN

SAN FRANCISCO — With New England's big banks making few new loans on the region's depressed commercial real estate, Wells Fargo Bank may open a Boston loan production office.

As part of an aggressive effort to increase business with the area's top developers, the San Francisco-based bank has hired the Boston consulting firm Morris & Morse to study the feasibility of opening such an office.

Meanwhile, the bank in recent months began "calling on the best developers in that area," said vice chairman David M. Petrone, its top real estate official. It hopes to lure customers who traditionally have borrowed from such financially troubled institutions as Bank of New England and Bank of Boston, he said.

Wells Woos Builder on BNE Board

The Wells Fargo & Co. subsidiary is "talking on an intense basis" with The Flatley Co., one of the largest commercial developers in Massachusetts, about assuming mortgages on existing properties, said a source familiar with the talks.

Wells contacted Flatley more than six months ago, before big real estate losses at New England banks had been announced, the source said.

Flatley's main bank lender has been Bank of New England, and its president, Thomas J. Flatley, is on the bank's board of directors. A Flatley official refused to comment.

Although Wells' retail banking operations are concentrated in California, it is a national commercial real estate lender. Wells Fargo Realty Advisors, its principal real estate lending arm, has nine offices outside California, including in Chicago, Atlanta, and Washington.

Washington Office Now Covers Northeast

Customers in the Northeast, including New England, are served from Washington. About 30% of the bank's $4.6 billion in real estate construction loans were made outside California.

Most New England banks have virtually stopped new commercial real estate lending due either to losses on their existing portfolios or to pressure from bank regulators, according to bankers and developers in the region.

"It is very difficult to get any type of financing right now. Most Boston banks are pretty much are out of commission," said David A. Neskey, chief financial officer of Spaulding & Slye, a major Boston developer that has borrowed from Wells Fargo for five years.

Few institutions from outside the region appear to have moved in. "We have not seen any increased activity from non-Northeastern banks," said Gary D. Smith, vice president for commercial real estate at Fleet/Norstar Financial Group, Providence, R.I.

Wells Fargo is the exception, Mr. Neskey said.□

Bank ATMs to Be Allowed in Post Offices

By YVETTE D. KANTROW

NEW YORK — The U.S. Postal Service on Wednesday will formally invite banks to rent space in post office lobbies to install automated teller machines.

The announcement was originally scheduled next Sunday at an American Bankers Association meeting in Scottsdale, Ariz. But the Postal Service moved up the date when a report on the plan appeared in *Bank Letter*, a newsletter published by *Institutional Investor* in New York.

According to *Bank Letter*, the Postal Service is seeking contracts to place ATMs in 700 post offices. The contracts are expected to generate about $2 million in revenue by September, the newsletter said.

A spokesman for the Postal Service said Monday the service was still working on the final details of the request for proposals from banks.

The Postal Service has been piloting an ATM program for several months with BankAmerica Corp.'s Seattle-First National Bank. According to Richard P. Yanak, a longtime executive in the electronic banking industry, an ATM appeared in a Seattle post office in 1974.

"This is not a terribly new idea," said Mr. Yanak, who is now president of New England Network Inc., which operates the Yankee24 regional ATM network. "They're just getting around to spreading it around the country."

Mr. Yanak said he doubts that the program will result in a massive number of ATMs in post office. "The only way you can make any sense of installing an ATM is to have volume," he said. "And people just don't visit the post office as often as they do supermarkets," where ATMs are already common.

The Postal Service is seeking to place ATMs in 700 post offices.

To turn a profit, an ATM located away from a bank branch must handle approximately 6,000 transactions a month, he said. Many urban areas already have enough ATMs installed in banks, supermarkets, and convenience stores. Therefore, banks may not want to spend additional money to rent space in post offices.

"Post office people will have no responsibility for these machines," Mr. Yanak added. □

NEWS *briefs*

Utah Company to Acquire United Savings of Oregon

Stockholders of United Savings Bank, Salem, Ore., have approved a merger with First Security Corp., Salt Lake City.

M.J. Burford, United Savings Bank's president and chief executive officer, announced that the merger had been approved by more than 77% of the shareholders and would close on March 2.

Regulatory authorities have already approved the merger.

First Security has assets of $5.8 billion.

Moody's Downgrades Midlantic Debt Issues

NEW YORK — Moody's Investors Service said it has downgraded Midlantic Corp.'s ratings, as well as that of its subsidiaries, affecting about $700 million of debt.

Moody's said the downgrades were based on the continuing deterioration in asset quality for Midlantic's member banks, especially in the real estate loan portfolio.

— Reuters

2 Massachusetts Banks Plan 'Merger of Equals'

Andover Bancorp and First Essex Bancorp said they had signed a definitive agreement under which the companies will merge into a single holding company in a tax-free exchange of stock.

The combination is expected to create the seventh-largest savings institution in Massachusetts, they said.

The new company, to be named Andover-Essex Bancorp, will have assets of about $1.3 billion and 20 banking offices in Massachusetts and New Hampshire, they said.

The two companies said the transaction was structured as a "merger of equals."

— Reuters

COMPANY *index*

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